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ABSTRACT

Finding the dollars needed to operate a college is a major challenge, especially for educational leaders endeavoring to raise their institutions' overall level of excellence. In many Southeastern states, two-year colleges have responded to declines in revenue by increasing tuition and other fees and in some cases putting the cost of college beyond the reach of the students two-year colleges were created to serve. Establishing legally incorporated college foundations and fund raising within the private sector can brighten the financial outlook for community colleges. The success of the foundation rests to a strong degree on the strength of its board of directors which should be composed of top leaders from the communities served by the college. The total development program should consist of at least three parts: (1) an annual fund program, which allows all of the college constituents to participate and which fosters the "habit of giving"; (2) a major gifts campaign, which usually concentrates on soliciting significant gifts from a select number of donors; and (3) a planned giving program, which ranges from simple bequests to life income trusts, insurance policies, pooled income funds, and other arrangements. Though most relevant principles of the tax laws regarding charitable giving were retained in the new tax legislation, some provisions may change the bottom line costs of a charitable gift. However, tax implications are probably not the most important consideration in gift giving. The educational environment is characterized by a new demand for excellence, and by a new spirit of cooperation and mutuality of support. Colleges that are identified as doing the job the way it should be done will find a great reservoir of private support. (EJV)

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Dollars Equal the Margin of Excellence

by Lex Walters

Finding the dollars needed to operate a college is today's major challenge for educational leaders, especially those who want their institutions to have an overall quality that exceeds the norms among two-year colleges. One area that provides fertile ground for many two-year college leaders is the effective use of a foundation and private sector fund raising. The new monies contributed can provide the necessary margin to raise the institution's overall level of excellence.

In many Southeastern states, community, junior and technical college educators, along with those from senior institutions, have for some time bemoaned the trend in declining revenue from traditional funding sources. Informed observers, rather than seeing a reversal of this pattern, are forecasting at best a steady state situation for the near future. In education, the usual response to declines in funding has been to increase tuition and other fees. The result has been that college tuitions have climbed nearly 10 percent annually in the 1980's, doubling the rate of inflation. Tuition has risen about 50 percent faster than personal income. These increases in the cost of attending college have created widespread concern among policymakers, parents, students and administrators. In some cases, increases in tuition have put the cost of college beyond the reach of the very students the two-year college was designed to serve.

Gifts to the college foundation can brighten the outlook for our colleges. For example, the Abell-Hanger Foundation of Midland, Texas, announced last year that it was giving a $600,000 gift to the Midland College Foundation to be used to pay the tuition of every Midland High School graduate who chose to attend the community college. Jess H. Parrish, president of Midland College, estimates that about 450 high school graduates took advantage of this opportunity. Through the work of college officials at Midland, a local philanthropic foundation saw how it could help the people of the region and decided to use its resources in an effective way to assist those people hurt most by the losses in jobs due to the West Texas oil price crisis.

Patrick Henry Community College in Martinsville, Virginia, also received a unique gift. A brother and sister donated $3 million on behalf of the family of the founder of Bassett-Walker, Incorporated, to build a fine arts facility and student center on the Patrick Henry Community College campus. In making this gift, the two indicated that they wished to honor the memory of their grandfather and father and the part they had played in establishing the textile and apparel industry in the Martinsville area. This gift will surely afford Patrick Henry Community College "the margin of excellence" for many, many years to come.

There are many wealthy people and philanthropic foundations who will gladly share their assets with our colleges if we identify our needs and communicate those needs to potential benefactors. Their dollars can be of assistance; we simply need to get that message to them.

If your college has been successful in foundation efforts, I commend you. You are certainly in the minority. If you have not been effective in raising significant dollars from the private sector, I would like to share with you some information that can be helpful in looking at the two-year college foundation as an avenue to achieve the margin of excellence.

Use of Foundations

When it comes to private philanthropy, the vehicle most commonly used by educational institutions is the legally incorporated foundation. As the college's tax exempt charitable arm, the foundation provides an avenue for the proper transfer of resources contributed to the college while assuring donors that their gifts are tax deductible.

An essential ingredient of success for the foundation is a strong board of directors composed of top leaders from the communities the college serves. Board members should take the lead in donating to the foundation. They should also be effective in soliciting additional donors and recruiting other volunteers to assist the foundation as needs require. The successful foundation must also have a competent staff and a strong sense of direction as evidenced by a published strategic plan.

The "three-legged stool" model, as practiced widely among college fund raisers, would seem to provide a structure covering the critical elements of the total development program. These "legs" are: (1) annual fund program, (2) major gifts campaign, and (3) planned giving. A review of the salient features and several examples of these structural categories reveal the role played by each and the unique potential each holds for the total foundation program.

Annual Fund

The annual fund provides a means through which all of the college constituents can participate in its support. This includes not only alumni, but parents, faculty and staff, other groups, and friends. Emphasis is on contributions which are nonrestricted because such funds are generally used for support of the operating budget or wherever the need is greatest.

Although the annual fund is typically the first fund-raising effort conducted by most colleges, it is difficult to begin fund-raising activities in the public two-year colleges with this type of program alone. This is true primarily because most two-year colleges have not developed a viable alumni program.

A recent article in *The Wall Street Journal* highlighted the experience of Frederick Nahm who took over fund-raising activities at Centre College thirteen years ago. At that time, more than a quarter of the college's alumni were listed as missing. "You can't ask them for money if you don't know where they are," Mr. Nahm is quoted as saying. After an extensive search, only about 100 alumni are still lost today, and this small college of 800 students in Danville, Kentucky, has increased its alumni giving more than ten-fold using an annual fund program.

As important as it is for the resources that it generates, the annual fund has some other valuable benefits. For one, it fosters with donors the habit of giving. When the habit of giving is formed, a relationship between the donor and the college is established which can pave the way to other gifts which are often larger. Institutions frequently witness the evolution of an annual fund donor into one who gives to the major gifts program or the planned gifts program—or both.

Major Gifts Campaign

A major gifts campaign is well defined by the name itself. First, it is intended to secure large gifts, although the meaning of "large" may vary among institutions. It is a campaign that is not ongoing or recurrent as is the annual fund. Organized to be conducted within a specific period of time, the major gifts campaign usually concentrates on soliciting a select number of donors who have the ability to make significant gifts instead of appealing to a broad constituency.

Contributions to a major gifts campaign are directed toward institutional purposes that are identified up-front as justification for the campaign. Through a statement of purpose, or, as fund raisers call it, a case statement, the college identifies the objectives of the campaign and outlines the ways the dollars raised will be used.

The major gifts campaign is rapidly becoming a mainstay of the fund-raising strategies used by two-year colleges and is usually an excellent way for a college foundation to begin fund-raising activities. A major gifts campaign allows the college to raise relatively large amounts of money in a comparatively short period of time, unlike the annual fund or planned giving. It also is generally directed toward a group of donors who are knowledgeable about philanthropic requests and who have the potential to make large gifts.

A case in point is the John A. Walker Community Center established at Wilkes Community College in North Carolina in 1984. The pride of the college and its surrounding community, the Center is one result of a two-year intensive strategic planning process which identified a pressing need for such a facility. The $2.2 million cost was underwritten by a successful campaign conducted by the college's foundation, the Wilkes Community College Endowment Corporation. As a need for the Center began to emerge, college leaders understood the key role a foundation might play in funding this facility. Although the foundation had been inactive, it was reconstituted by dynamic community and business leaders chosen to lead the campaign. The end result was more than two million dollars in gifts.

At Piedmont Technical College our recently dedicated Conference Center was completed without the use of state funding. It is significant that private sector funding built the facility, which will be used by area business and industry for management training and other professional development programs. The Self Foundation (a local philanthropic organization) provided the challenge gift, and matching gifts from college foundation members, area business organizations and private citizens equalled and surpassed the challenge.

The Self Foundation was, in fact, the catalyst for Piedmont's first major gifts campaign, a two-year effort with a goal of $300,000. In eighteen months, we were able to raise more than $500,000. The same organization made the initial donation to a second major gifts program, the goal of which is $1 million. Less than halfway into the three-year campaign, we have reached eighty percent of our goal. Funding will support the enhancement of the college endowment, the addition of high technology equipment in college laboratories, development of the Factory of the Future, and the expansion of college scholarships and professional development programs for faculty and staff.

Planned Giving

The third leg of the "three-legged stool" is planned giving. As a general definition, gifts in the planned giving category are those which do not pass simply and quickly from the donor to the receiver. More specifically, planned gifts range from simple bequests to life income trusts, insurance policies, pooled income funds and a variety of other arrangements. Traditionally, the planned giving focus of a college foundation effort is considered only after the annual fund is operating and the college has experience with major gifts campaigns. Planned giving is certainly a natural extension of the other two forms of giving. It is traditionally the fund-raising source which has the greatest potential to bring dollars to the college. A number of specific features characterize planned giving; for example, a donor may continue to derive some direct benefit from the gift. This principle is based on the idea that it is possible to separate a gift of capital from the income generated by that capital. As a result, there exist several mechanisms by which a donor may execute a gift to be consummated at death while receiving an income based upon that gift for life.

Another feature of planned giving is that such gifts may be made either on a current or deferred basis. Bequests and life insurance policies are examples of deferred gifts, as are life income gifts. On the other hand, a gift of highly appreciated securities or real estate would be a current planned gift.

The Piedmont Technical College Foundation has made a strong commitment to the planned giving concept. While recognizing that this effort requires discipline and patience, we believe that the potential benefit is substantial.

To support the planned giving program at Piedmont Technical College, a number of activities have been init-

iated. Quarterly mailings to planned giving prospects provide information intended to make the prospects aware of opportunities they have to contribute using one of the deferred giving plans. One of the more effective initiatives at Piedmont Technical College has been the scheduling of quarterly seminars for a select group of potential donors. The series has brought to the college outstanding speakers on subjects such as tax reform or estate planning. The college foundation absorbs the cost of these seminars; however, the most significant outcome of the seminar program is the development of friends for the college and the establishment of a base for future planned giving.

Planned giving is widely regarded as the fastest growing area of individual giving in higher education. From 1982-85, such gifts to colleges and universities increased by 56 percent from an estimated $149 million to $232 million, according to figures provided by the Council for Financial Aid to Education.

Tax Implications

Prior to enactment of the new tax legislation, there was a wave of concern about how the final version of that law would affect charitable giving. Now, for the most part, charitable groups, including foundations in support of higher education, have breathed a collective sigh of relief. While a few areas of concern remain, most principles of tax law related to charitable giving have been preserved.

The deductibility of charitable contributions, for instance, still holds for persons who itemize their deductions. Likewise, the opportunity to avoid payment of capital gains taxes on gifts of appreciated property, while deducting the property's full fair market value, is still available.

The lowering of individual tax rates, from a maximum of 50 percent to a maximum of 28 percent (or 33 percent for higher income taxpayers) in 1988, adds a new dimension to fund raising. Lower rates, of course, mean that donors receive smaller tax savings based on their contributions. Some feel that this will discourage charitable giving. There is, however, another side of this coin. Lower rates will also leave a larger residue of discretionary income for many people, thus enhancing their ability to give.

Under the new tax law, the alternative minimum tax has perhaps created the greatest concern with regard to charitable giving. Under the new rules, the amount of appreciation in gifts of appreciated property is now treated as a tax preference item for the alternative minimum tax purposes. There may be another positive factor. Authorities in the field of tax law advise that, as a general rule, a donor with no other tax preferences may deduct appreciation representing up to 25 percent of an alternative minimum taxable income without being hooked by the alternative minimum tax. This means, then, that appreciation by itself would have to be substantial in relation to income in order to trigger the alternative minimum tax.

For donors who look seriously at the bottom line costs of a charitable gift, the new tax law creates a most interesting situation. Because of the replacement of capital gains with increased tax rates, the amount of tax avoided by means of giving appreciated property has the effect of lowering the net cost per dollar given of the gift. The result is a lower net cost of making a gift of appreciated property than under the old tax rules. For such individuals, the cost of an appreciated property gift is also less than the cost of an outright cash gift.

While there are many doomsayers predicting dark times for charitable groups because of the tax changes, others feel the new tax laws have left an adequate number of incentives to keep philanthropy viable and strong in America.

Why Donors Give

All that I have said about taxes notwithstanding, I believe the reason most donors give is for reasons other than tax advantage.

Austin Kiplinger, president of the Kiplinger Washington Editors and a preeminent observer of trends in American society, says: "I do not believe that tax implications are the most important consideration in the making of gifts. They are always a part of the planning, and taxes provide a rationale in our efforts to open doors to new gifts. But I firmly maintain that the person whose only interest is in the highest possible personal gain will not be a very generous prospect in the first place."

Why, then, do people give? It may be simplistic to say that there are as many answers to the question as there are donors. Yet there is a fundamental truth to be gleaned from the statement, for while there are at least two commonly cited themes which undergird most giving, there are many variations on these themes.

Professionals in institutional development will tell you that people give out of a desire to do something worthwhile, to create, and to perpetuate. Beyond that, they will remind you that people give to causes in which they believe. These thoughts, in my view, stand unchallenged.

Let us consider the variations. Robert Breunig, executive director of the M. Okada Foundation in Long Beach, California, has written an interesting article that discloses some of the deeply held values that motivate people to give. His examples:

- A single woman who, as a poor young woman, attended an institution that "gives people a chance to help themselves." In appreciation, and to assure the school's continuing ability to do the same for others, she gave more than a million dollars.
- A retired businessman who gave $1.5 million to a college because he liked the kind of education it offered.
- The head of a large corporation who made a major gift to a college that had developed successful strategies to bring minorities into the mainstream of American life.
- A retired, unmarried staff member of an institution who had amassed a small fortune by investing portions of his salary. He gave generously to the college because his former colleagues invited and welcomed his presence on the campus.
- A couple who gave liberally to a prep school attended by their son. Their gift, virtually spontaneous, was made during a campus visit on a quiet summer day. They were impelled by thoughts of past associations and "the way we were" when their son was enrolled.
- A prominent leader in public life, who as a staunch Catholic gave his papers and memorabilia to a non-Catholic institution. Why? "Because they asked me!"

After all is said and done, such motives as these are the ones which make the final difference in getting the gift. It is, therefore, incumbent upon foundations and all charitable organizations to be sensitive to those

factors in the individual human equation which just might bring the charitable inclination to fruition. And that inclination provides us with the margin of excellence we are seeking.

Conclusion

It is often said that we are living in a new world, and in many ways we are! Changes in demographics and technology have converged to produce new philosophies and expectations which differ radically from those of less than a generation ago. There are new needs to be met in our world. There is a new spirit of competitiveness which has reinterpreted the old axiom about the "survival of the fittest."

There is also a new demand for excellence on the part of society's institutions. The quest for excellence requires that those institutions which are entrusted with preparation of people for success in this new and ever-changing world be the very best that they can be. Our schools and colleges must rise to this challenge.

Fortunately for us, there is also a new environment of cooperation and mutuality of support in this world. All eyes are upon us, seeking to identify those institutions which are doing the job the way it should be done. Those so identified will find, particularly in America, a great reservoir of private support. It is this support which can assist institutions with vision in establishing the margin of excellence. With this support, it will be possible to meet the requirements of this new world more effectively. Such support is there. Most of the time, we will have to work for it. Sometimes all we must do is ask!

Lex Walters is president of Piedmont Technical College.

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